OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508

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2004-22
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MARCH 18, 2004 **(202) 395-3230**

U.S. Files WTO Case Against China Over Discriminatory Taxes That Hurt U.S. Exports

WASHINGTON –U.S. Trade Representative Robert B. Zoellick announced today that the United States has filed a case at the World Trade Organization (WTO) regarding China's discriminatory tax rebate policy for integrated circuits. Today's action begins a 60-day consultation period required under WTO rules.

China provides preferential tax treatment to integrated circuits produced in China, thereby disadvantaging U.S. and other imports. The United States believes that this discriminatory tax policy is inconsistent with the national treatment obligations that China assumed when it joined the WTO in December 2001.

"U.S. manufacturers of semiconductors and other products have a right to compete on a level playing field with Chinese firms," said Zoellick. "As a WTO member, China must live up to its WTO obligations; it cannot impose measures that discriminate against U.S. products. We have been pressing these and other concerns with the Chinese. These discussions will continue because we prefer compliance rather than litigation. However, the bottom line is that China is discriminating against key U.S. technology products, it's wrong, and it's time to pursue a remedy through the WTO."

China is a substantial market for U.S. semiconductor producers: U.S. exports of integrated circuits to China were $2.02 billion in 2003. U.S. exports of integrated circuits to China are subject to a 17 percent value-added tax (VAT), costing approximately $344 million. However, China taxes domestic products significantly less, by allowing firms producing integrated circuits in China to obtain a partial refund of the 17 percent VAT. As a result of the refund policy, the effective VAT rate on domestic products can be as low as 3 percent. China also allows for a partial refund of VAT paid on integrated circuits designed in China but manufactured abroad. We believe that this policy is also inconsistent with China's international trade obligations.

China's integrated circuit market is valued at approximately $19 billion, the world's third largest. Although imports currently represent approximately 80 percent of China's market, its semiconductor industry is expanding rapidly, with substantial investment from foreign firms. The United States believes that China's current VAT rebate policy not only discriminates against U.S. products directly, but also distorts international investment in the integrated circuit sector.

Background

One of the guiding principles of the WTO is that countries and consumers benefit most when products have fair and equal access to markets without regard to their national origin. Policies that discriminate against products on the basis of national origin distort both purchasing and investment decisions to the detriment of everyone. While WTO rules permit countries to provide certain types of assistance to domestic industries, they prohibit WTO members from supporting their industries by discriminating against foreign products.

The United States has repeatedly engaged China regarding its integrated circuit VAT rebate policy in an attempt to resolve the issue. These efforts have not succeeded.

This is the first WTO case filed against China by any WTO Member.

Since China joined the WTO in December 2001, the United States has had a number of concerns regarding China's WTO implementation. Substantial progress has been made in areas such as agricultural biotechnology, express delivery, insurance and auto financing rules without having to go through the WTO dispute settlement process. In 2002 and 2003, for example, at the request of the United States, China delayed implementation of stringent biotechnology measures that would have prevented U.S. soybean exports from entering the market. U.S. exports of soybeans to China over the past two years were nearly $4 billion, and last month, China issued permanent safety certificates that will allow trade in soybeans to continue uninterrupted.

Today's action begins a 60-day consultation period. If consultations fail to resolve the dispute, the United States can request that a panel be established to consider whether China is acting in accordance with its WTO obligations.

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